

IMF Extended Fund Facility Arrangement for Pakistan



Chartered Financial Analysts Society of Pakistan, July 22, 2019

IMF Resident Representative: Ms. Teresa Daban Sanchez



Overview of the Presentation

- Introduction: What is the IMF? How are the IMF-Pakistan relations?
- What are Pakistan's Macro-Critical Imbalances?
- What are the POLICIES and REFORMS envisaged under the IMF-Supported Program?
- GOALS, RISKS and MITIGATING FACTORS
- How the IMF-Supported Program will be Implemented and Reviewed?

OVERVIEW



IMF - An Overview

- **What is the IMF?** Some confusion in the public opinion, even after 18 arrangements...
- **How IMF serve to its country members?**
 - Policy Assessment and Advice (e.g. Article IV Consultations)
 - Lending (Facilities to support governments' programs)
 - Capacity Building (e.g. Trainings and Technical Assistance]
- **What are the main IMF Facilities?**
 - Concessional rates: Poverty Reduction and Growth Facility (PRGF), and the Extended Credit Facility (ECF);
 - Market Based rates: such as the Stand-By Arrangements (SBA), Extended Fund Facility (EFF), among others



IMF-Pakistan: A Historical Perspective

- Pakistan Joined IMF on July 11 1950
- 18 Lending arrangements since 1958,
- Why? Pakistan's recurrent BOP Crisis, either for external shock or internal factors
- Only the EFF 2013-2016 2013-16 was fully disbursed
- The stability gains achieved since late 2016 eroded. Pakistan again in a challenging situation
- Information about Pakistan and IMF at
- <https://www.imf.org/en/Countries/PAK>



What are Pakistan's Main Macro-Critical Imbalances?

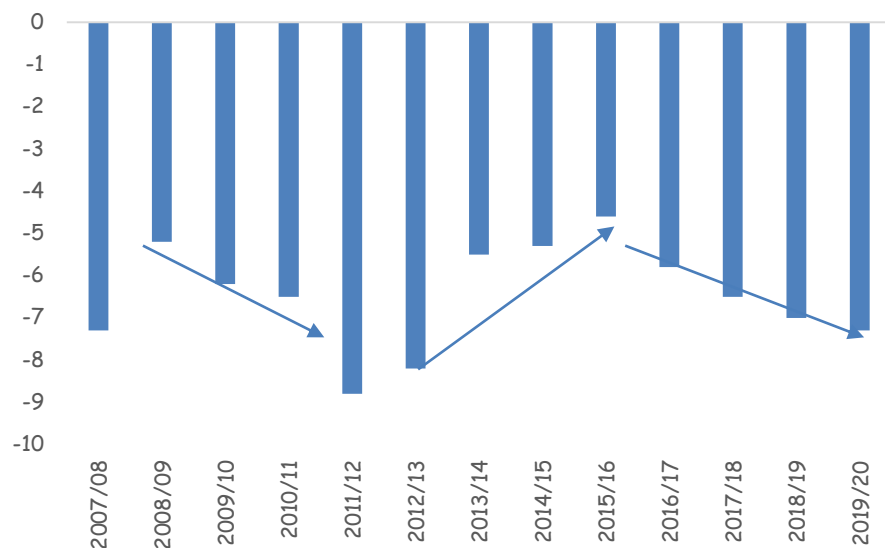
- Ballooning public deficits and losses in state owned companies, in a context of perennial low tax revenues and base.
- Increasing government borrowing—both domestic and international, a high and unsustainable debt level and interest payments (25 percent of the government revenue)
- Increase in trade deficit, reflecting high deficit, and keeping the exchange rate constant.
- Loose monetary policy, decline in SBP's reserves to finance increasing imports, and despite extra funding
- Inflation increase, growth skewed toward consumption, competitive loss, low investment and job creation.



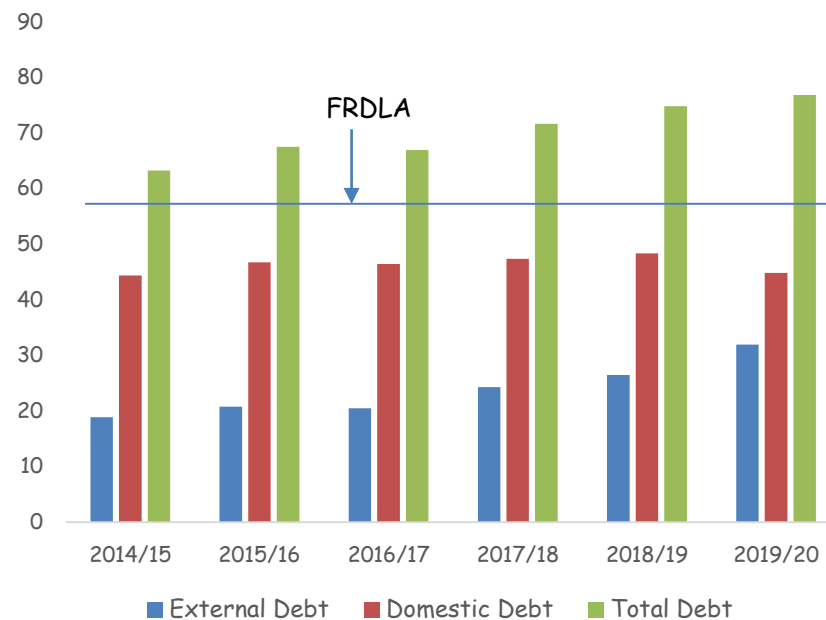
Pakistan Economy: Key Macro-Critical Imbalances

- High Fiscal Deficit and High Level of Debt

High Fiscal Deficit (excluding grants)
% of GDP



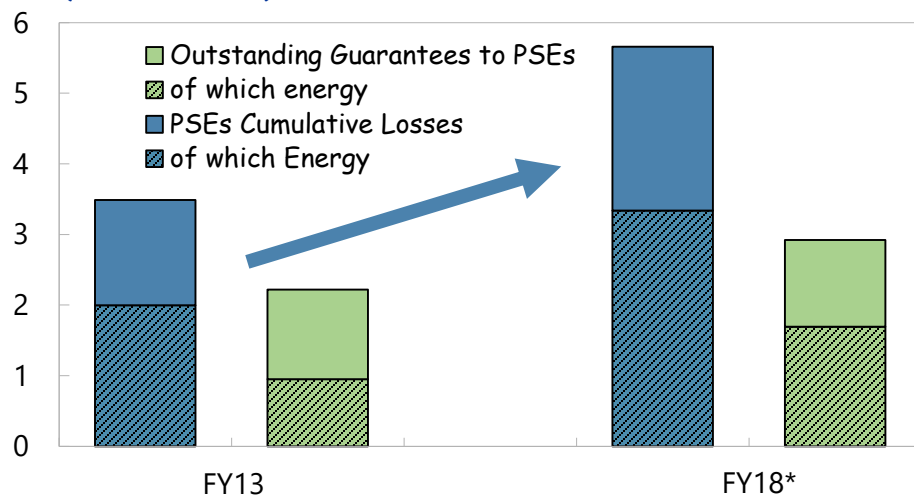
Public Debt Profile (as a % of GDP)



Pakistan Economy: Key Macro-Critical Imbalances

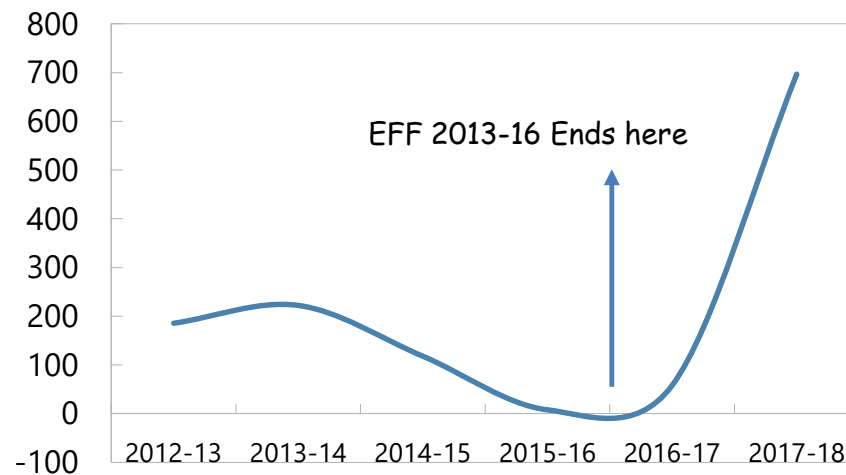
- Increasing losses of SOEs and power sector circular debt

PSEs Losses and Government Guarantees
(Percent of GDP)



* Preliminary. Includes PIA, PSM, Railways, and DISCOS.

Accumulation of power sector arrears
(In PRs billion)



Note: Includes new circular debt and new loans to the Power Holding Company Limited (PHCL).

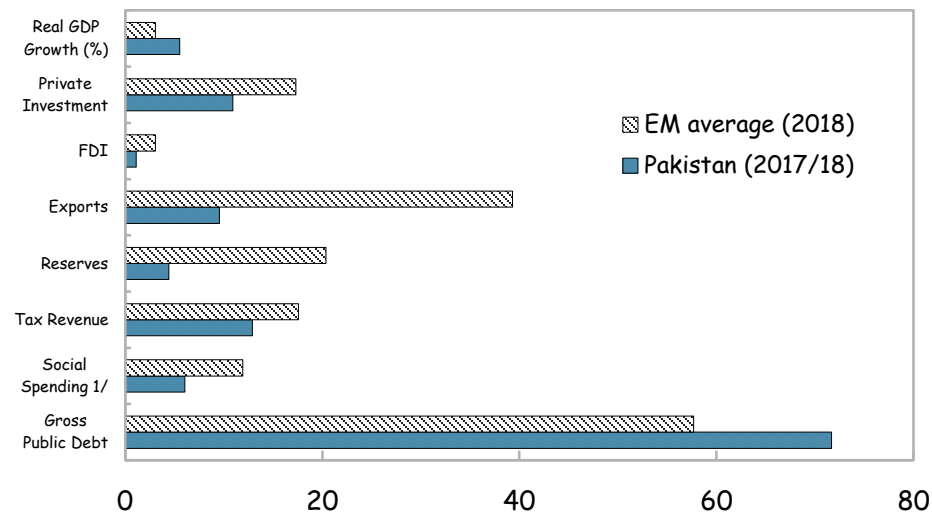
Pakistan Economy: Key Macro-Critical Imbalances

- Low Tax Revenue and Comparative Macroeconomic Position

Tax Revenue (as a % of GDP)



Pakistan Relative to Emerging Market Economies
(In percent of GDP, unless otherwise indicated)



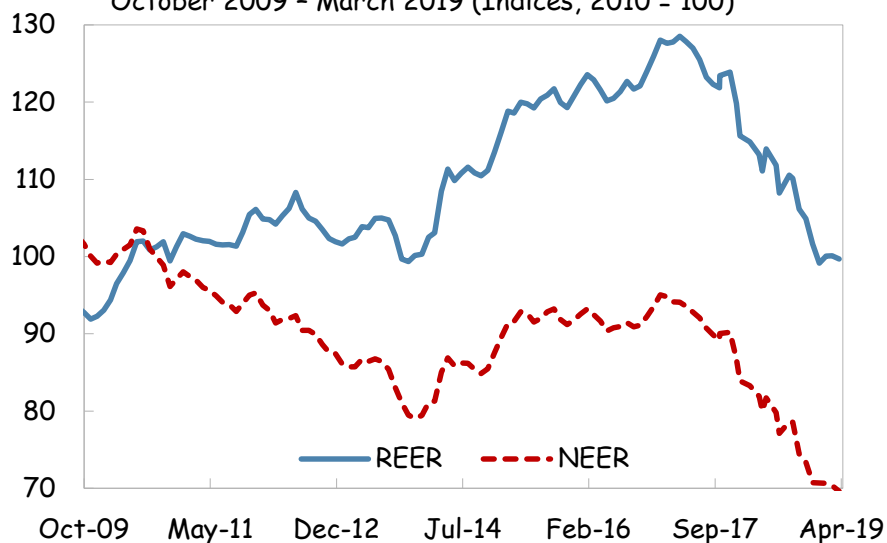
Sources: IMF WEO Database, World Bank ASPIRE and WDI Database. 1/ Health, education and social safety net spending.

Pakistan Economy: Key Macro-Critical Imbalances

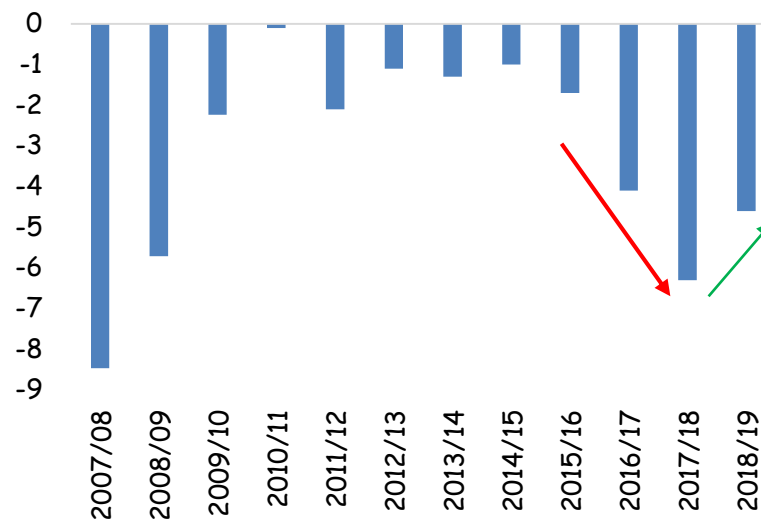
- An Overvalued Exchange Rate and Increasing Current Account Deficit

External competitiveness remains weak, some recent improvements notwithstanding.

Real and Nominal Effective Exchange Rate
October 2009 - March 2019 (Indices, 2010 = 100)



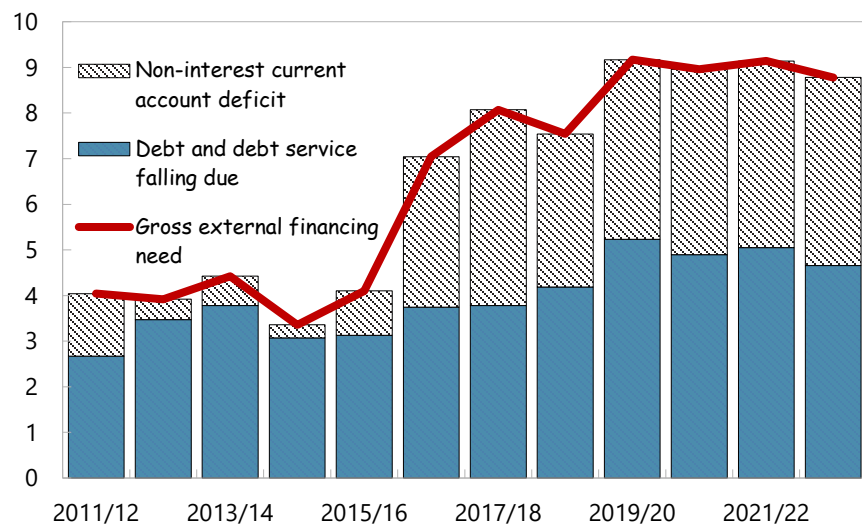
Continued External Pressures.....
Current Account Balance (as a % of GDP)



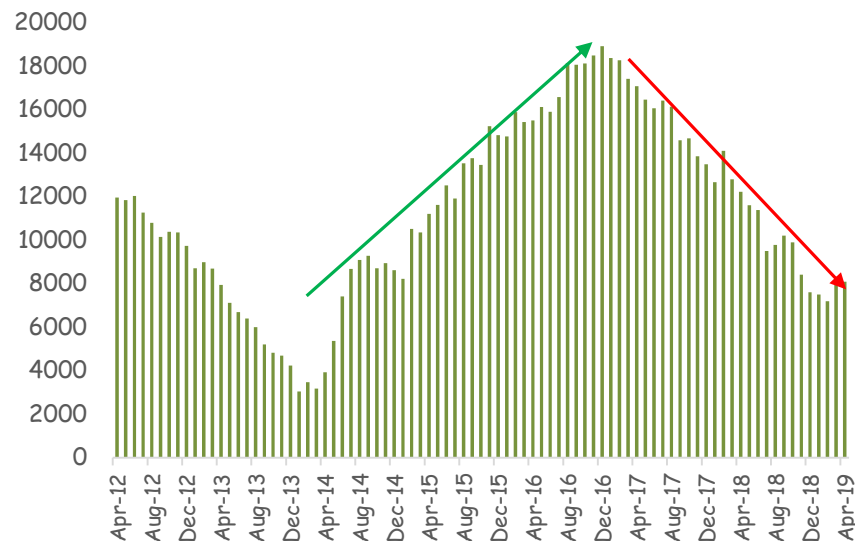
Pakistan Economy: Key Macro-Critical Imbalances

- Rising External Financial Needs and Erosion in SBP Reserves

Rising External Financing Needs...
(Gross external financing needs, percent of GDP)



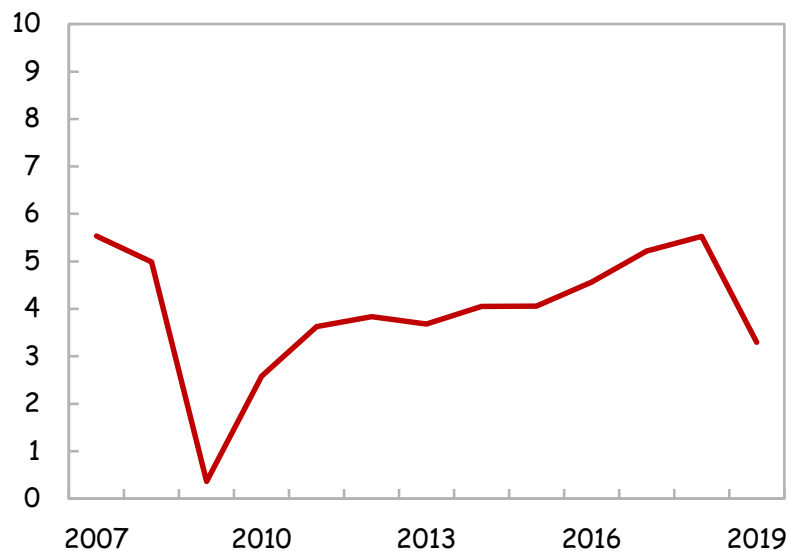
Erosion of FX Reserves (million U.S. dollars)



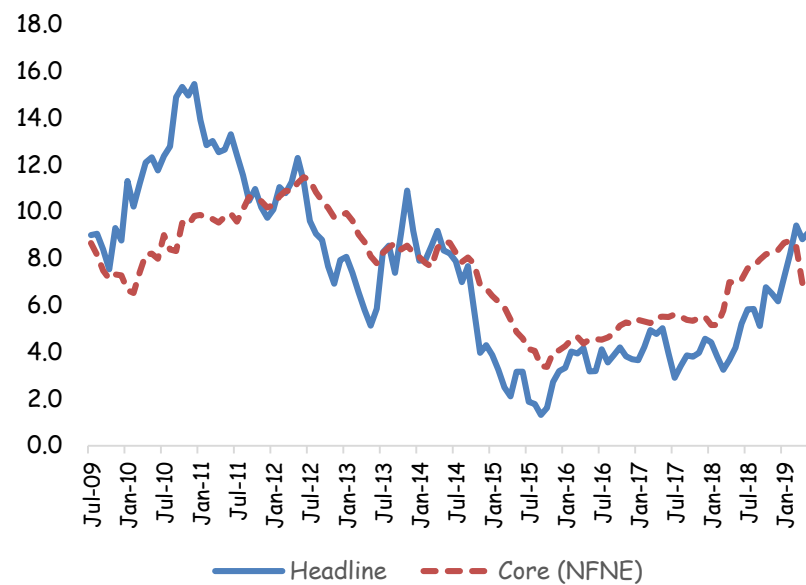
Pakistan Economy: Key Macro-Critical Imbalances

- Declining and consumption-focused growth, and increasing inflation

Trend in Real GDP Growth (%)



Headline and Core Inflation



Pakistani Authorities' Spade Work

- Some steps to stabilize the economy since early 2018: some exchange rate depreciation, monetary tightening (e.g. increase in the SBP policy rate), power and gas tariffs adjustments, and two minibudgets. In addition, the government secured sizable short-term financing from bilateral creditors.
- All these measures fell short of the comprehensive policy actions and reforms needed to ensure macroeconomic stability.
- The government has developed a comprehensive 3-year program to stabilize the economy and lay the foundation for robust and balanced growth.



What are the POLICIES envisaged under the IMF-supported Program?

- FIRST, a revenue-based fiscal consolidation, focused on removing exemptions and privileges, greater coordination with provinces, and an elimination of quasi-fiscal circular debt
- SECOND, a market-determined and flexible exchange rate, and a strengthened central bank focused on achieving price stability
- THIRD, the strengthening of social safety net, to protect the most vulnerable as needed, by expanding coverage and budget allocation of Benazir Income Support Program and Conditional Cash Transfer



What are the REFORMS aimed under the IMF-Supported Program?

- Improving public financial management to instill fiscal discipline and transparency (e.g. new PFM Law)
- More autonomy for the State Bank of Pakistan as it prioritizes price stability (e.g. no more government borrowing from SBP)
- Strengthening tax policy and administration
- Reforming the energy sector to ensure efficiency and better services
- Modernizing the SOE legal framework
- Strengthening anticorruption institutions; and progressing on FATF issues
- Removing bottlenecks and regulatory impediments to investment and job creation (e.g. speeding custom clearance, simplifying procedures to start a business, etc).



What are the GOALS that this program aims at achieving over the medium term?

- Debt sustainability
- Stronger tax collections and a better FBR
- Independent Central Bank
- Market-determined Exchange Rate regime
- Moderate inflation trajectory
- Sustainable and inclusive growth
- Power Sector Efficiency
- A new PFM regime/framework
- Better management of SOE
- Getting out of FATAF grey list



Pakistan

The country's economic plan seeks to return sustainable growth to the economy by adopting reforms to foster stronger and more sustainable growth

WWW.IMF.ORG/SOCIAL / FB.COM/IMF / @IMFNEWS



RISKS

- Fiscal slippages, resistance to fiscal measures, debt sustainability at risk
- Opposition to governance and institutional building by vested interests
- The absence of a majority by the ruling party in the upper house; provinces may underdeliver on their surplus commitments
- Large amount of rollover needs for short-term debt, and
- Failure to get out of grey-list by FATF could have implications of capital inflows to Pakistan, and jeopardizing the financing assurances under the program.



Supporting Factors

- Strong ownership by incumbent government and authorities and continuation of reforms
- Upfront adoption of key policy measures, especially on greater exchange rate flexibility
- Securing formal agreements with the provinces on the overall fiscal strategy, including procedures to address deviations
- Increasing social spending to protect the most vulnerable from the impact of reforms and garner support for these measures; and
- Strong commitments of support from the World Bank, ADB, and key bilateral partners and conservative assumptions on private financing flows.



How the IMF-Supported program will be implemented and reviewed?

- Quarterly Reviews; first one before end December; if successful, they will be followed by disbursements.
- Performance Criterion; numerical targets of key variables such as primary balance, level of reserves, etc.
- Indicative Targets; numerical targets that help monitor quality of the adjustment, such revenues collections, spending on health and education
- Structural Benchmarks; actions, such as preparing a piece of legislation



it's
Q&A
TIME!

